United States Senate

COMMITTEE ON SMALL BUSINESS
WASHINGTON, DC 20510–6350

July 13, 2001

The Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce, Justice
State, and the Judiciary
Committee on Appropriations
United States Senate
Washington, D.C. 20510

The Honorable Judd Gregg
Ranking Member
Subcommittee on Commerce, Justice,
State, and the Judiciary
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Fritz and Judd:

As Members of the Senate Committee on Small Business, we submit the following recommendations on the President's FY 2002 Budget Request for the Small Business Administration (SBA).

The President's FY 2002 Budget Request proposes some dramatic reductions in the funding of the SBA. Just last December, we in Congress approved $899.5 million for the SBA for FY 2001. Several months later, the Administration proposed to reduce the SBA budget to $539 million, a dramatic decrease with the difference in funds coming from new or increased fees paid to the SBA by small business owners and entrepreneurs.

Each year since January 1995, we on the Committee have advocated funding for efforts to modernize, automate and streamline the SBA, and we continue to request that you support the funds requested by the President to continue these initiatives at the Agency.

However, we urge caution in reviewing requests to reduce the SBA's overhead by shifting the financial burden to small businesses who cannot obtain loans from regular lending sources and small businesses seeking management assistance as in an effort to enhance their prospects for success or as is often the case, in a last ditch effort to keep their businesses alive.

Therefore, we would suggest the following changes to the President's budget request for the SBA's FY 2002 budget:

7(a) Guaranteed Business Loan Program

Each year, 40,000 or more small business concerns that cannot obtain comparable credit elsewhere turn to the 7(a) program for critically needed financing. We disagree with the Administration's request to increase the fees paid by borrowers and lenders to offset the need for an annual appropriation. As you know, the borrowers and lenders already pay significant fees that help to reduce the credit subsidy cost necessary to run the program. Therefore, we recommend that the Committee add sufficient budget authority (approximately $97 million), when combined with carryover balances from FY 2001 (approximately $21 million), to support an $11 billion loan guarantee program.

Small Business Investment Company (SBIC) Program

The SBIC programs are a unique partnership of public and private funds in which SBA-guaranteed funds supplement the capital of private venture capital investment firms. The SBICs are licensed and regulated by the SBA. They are privately owned and managed investment firms that make their own investment decisions. The SBIC program was reinvented in 1992, when the Congress passed legislation creating a new Participating Securities program, followed by new regulations implementing a sweeping overhaul of the existing Debenture program.

The FiscalYear 2002 budget request recommends increasing fees paid by the SBICs to offset the annual appropriation needed to fund the debentures guaranteed under the SBIC Participating Securities program. This change would require an increase from 1.0% to 1.37% to the annual interest surcharge paid by the SBICs to the SBA on their outstanding balances of the SBA-guaranteed investment funds.

Over the past year, the private equity market has dried up considerably, which has led to increased demand on the SBIC program. Therefore, we recommend that the Committee approve $3.5 billion in leverage for the Participating Securities program and $2.5 billion for the Debenture program. Both levels are the authorized amounts approved by Congress last year.

SCORE Program

Last fall, Congress enacted legislation setting the FY 2002 authorization for the SCORE Program at $6 million. The President's budget request, however, sought $3.75 million, an increase of $250,000 over the FY 2001 appropriation. Unfortunately, it appears the House Appropriations Committee may approve only $3.5 million. We would strongly urge you to approve $5.0 million.

Over 11,400 business men and women volunteer their time and talents to provide assistance in the form fo training and counseling to prospective and current small business owners. This increase would allow for the SCORE Program and its army of volunteers to meet the calls for help from the growing number of small business owners and would cover more of the operational costs of the volunteers, including postage, paper, travel and other expenses necessary to allow this vital program to continue its services to our Nation's small businesses.

Small Business Development Center (SBDC) Program

For Fiscal Year 2002, the Administration is proposing that SBDCs collect fees from small business owners and entrepreneurs, which would require that legislation enacted by Congress in 1997 (Section 502(d) of the Small Business Reauthorization Act of 1997) be repealed. We strongly oppose their recommendation. The prohibition against new fees should not be rescinded or modified, and funding of the SBDC program should be increased to not less than $105 million for FY 2002.

As you know, Federal funding of the SBDC program constitutes the seed funding for the program, which is leveraged one to two times by state, local, and private funds. Recent accomplishments of the program include serving more than 595,000 small businesses annually, which created more than 90,000 jobs and generated $5.5 billion in sales, leading to nearly $600 million in tax revenues.

The additional funding we have recommended is critical if we are to begin to target the success of the SBDC program to areas that can benefit from better penetration of the program, including communities with substantial opportunities for minority-owned small businesses. With the large growth in the number of Hispanic-owned business in both rural and urban areas, there is a growing need for bilingual business services, and the SBDC centers located throughout the United States are well positioned to help in this area.

Women's Business Centers Program

The Women's Business Centers program at the Small Business Administration (SBA) provides five-year grants, matched by non-Federal dollars, to private-sector organizations to establish business-training centers for women. Depending on the needs of the individual communities being served, the Centers teach women the principles of finance, management and marketing, as well as specialized topics such as how to obtain a Federal government contract or how to start a home-based business. Women Business Centers are located in rural, urban and suburban areas. Much of their training and counseling assistance is directed toward socially and economically disadvantaged women. There has been tremendous growth within the program, and today, most States have at least one Women's Business Center.

In FY 2001, Congress approved $12.0 million for the program. Unfortunately, the Administration requested $12 million for FY 2002, which does not allow sufficient funds to be available accommodate the growth and popularity of the program. Therefore, we are recommending that you approve $13.7 million, the amount authorized for the Women's Business Center Program for FY 2002.

HUBZone Program.

More funds are needed for the Historically Underutilized Business Zone (HUBZone) program. This program was adopted in the Small Business Reauthorization Act of 1997 and authorized at $5 million for Fiscal Years 1998 through 2000. In the Small Business Reauthorization Act of 2000, the HUBZone program was re-authorized at $10 million for Fiscal Years 2001 through 2003. Actual appropriations for this program, however, have remained at $2 million each year for Fiscal Years 1998 through 2001. We respectfully request that the HUBZone program be funded at not less than $5 million.

Regular under-funding of the HUBZone program threatens the program's ability to deliver on these promises. In Fiscal Year 2002, Federal agencies are to award 2.5% of all prime contract dollars through the program, or approximately $5 billion in prime contracts. Moreover, § 8(d) of the Small Business Act requires large business concerns to submit HUBZone program subcontracting plans in contracts over $500,000 ($1 million for construction contracts). The SBA has certified 2,648 firms in the HUBZone program, which is not enough to support this volume of contracting. Additional funding is necessary to seek out and certify a sufficient number of qualified firms.

However, increasing the number of HUBZone-certified firms does present potential enforcement concerns. Given the tendency for all government programs to be abused by ineligible participants, the list of certified HUBZone concerns likely has at least some ineligible firms on it--either through deliberate noncompliance with, or unintentional misunderstanding of, program requirements. The HUBZone Act of 1997 sought to ensure that program benefits flow to eligible firms in distressed areas and authorized the SBA to conduct random examinations to ensure compliance, and additional funds are needed to support this statutory requirement.

Keeping the HUBZone program underfunded is thus a false economy. It means that existing appropriations are expended without fulfilling the program's unique role in developing the most distressed areas of the nation. Further, it leaves the program at risk for waste, fraud, and abuse--potentially resulting in avoidable contracting delays that will harm other programs.

Contracting Assistance for Women-Owned Business

The Small Business Reauthorization Act of 2000 included new authority for contracting officers to help increase access to procurement opportunities for women-owned small businesses, the fastest growing sector of small businesses. Specifically, whenever contracting officers can reasonably expect two or more eligible firms to do so, they may set contracting opportunities aside for competition only among women-owned firms. Eligible small firms must be owned and controlled by economically disadvantaged women, except in industries where women are found to be under-represented (in which case the economic disadvantage requirement may be waived).

SBA is to conduct a study to determine which industries demonstrate under-representation of women.

A systematic and careful study will be necessary to ensure that the SBA is able to carry out these responsibilities and to make waivers of the economic disadvantage component only when permitted under the statute. Failure to prepare a proper and thorough study could cause improper application of these provisions, either depriving eligible women-owned firms of benefits authorized under the law, or giving ineligible firms benefits to which they are not entitled. Finally, the General Accounting Office (GAO) has reported that a proper and systematic study will be vital to help identify areas for improvement in the government's implementation of the 5% contracting goal for women-owned small businesses.

In view of these new SBA responsibilities, the Administration has requested $500,000 for procurement assistance to women, which is new funding compared to last year. We support this request. However, we also believe the Census Survey of Women Business should be fully funded at $1 million, not the $694,000 requested. These funds reimburse the Census Bureau for costs of conducting the regular Women Business Survey. Data from that Survey undoubtedly will be crucial to implementing the set-aside authority through the SBA Office of Federal Contract Assistance for Women. Proper funding of the Survey will help ensure collection of useful data and will reduce the need for the contracting assistance office to fill in gaps left by an underfunded Survey--thus reducing the potential for duplication of effort and the unnecessary spending that would entail.

Procurement Center Representatives (PCRs).

The SBA also faces a serious "brain-drain" of procurement knowledge as its staff of Procurement Center Representatives (PCRs) has shrunk below sustainable levels. Information provided to the Small Business Committee in 2000 indicated that the SBA had only 35 PCRs on staff– a reduction from 68 PCRs in January 1993. Although we understand the SBA has squeezed its existing budget to hire 13 more PCRs, this is still far below the number needed. The General Accounting Office (GAO) reported to the Committee that the existing PCR staff covers only 238 of the government's 2,250 procurement centers--leaving about 90% uncovered. Many of the existing staff have no funding to travel to the procurement centers nominally assigned to them, so the coverage is even less than the statistics indicate.

At the same time the PCR staff shrank, the Congress imposed new responsibilities on the PCRs to combat the practice of contract bundling. Left unchallenged, contract bundling will reduce the Federal vendor base by driving small business out of Federal procurement.

The Small Business Reauthorization Act of 1997 provided a process to assess proposed instances of contract bundling to determine whether they are in fact necessary and justified.

Unnecessary and unjustified instances of contract bundling may be challenged by the SBA to the head of the procuring agency, and when contract bundling is shown to be necessary and justified, the SBA is to work to enhance subcontracting opportunities for small business. In July 2000, the SBA adopted final rules placing most of these responsibilities on the PCRs.

Failure to hire and retain sufficient PCRs will further diminish the SBA's ability to carry out its statutory mandate to combat bundling. Procurement is a technical discipline that requires knowledge and experience to manage effectively. Insufficient staff cannot be overcome by tasking these responsibilities to other SBA employees as a part-time function. Without enough PCRs, the SBA will be unable to work with procuring centers to develop small business-friendly procurement strategies, and will be forced to intervene at the last minute to appeal contract bundling. This will result in delays in contracting by other agencies, frustrating their efforts to carry out their own responsibilities.

Accordingly, we recommend that the budget include funding to hire and train an additional 20 PCRs in Fiscal Year 2002, while replacing attrition among existing PCRs. Based on costs to hire PCRs in the past, this will require an additional $2 million earmarked for the SBA Office of Government Contracting. The Committee Report should clearly state the purpose for which this funding is earmarked to ensure it is allocated to its intended purpose.

Federal and State Technology (FAST) Partnership Program

This program, established by the Small Business Innovation Research (SBIR) Program Reauthorization Act of 2000, is a competitive matching-grant program to encourage States to create an atmosphere conducive to the development of high-technology small businesses, including the establishment of coalitions of university and private sector organizations. While the program is administered by the SBA, each agency with an SBIR program participates in the determination of State programs that should be funded. The FAST program is intended to support the SBIR program, by marshaling more and higher quality research and development proposals to SBIR agencies.

$3.5 million was appropriated for the FAST program for Fiscal Year 2001. Fifty States, the District of Columbia and four territories are eligible for funds under the program. While funding under the FAST program is to be provided on a competitive basis and the program does not require that each State receive funds, if each State or jurisdiction submits an eligible proposal and receives funds, the average grant amount will be approximately $63,600. This amount is insufficient to provide an effective incentive to States to encourage the development of small, high-technology businesses. Therefore, we request that the FAST program be funded at its authorized level of $10 million.

Small Business Innovation Research (SBIR) Rural Outreach Program

In 1997, Congress established the SBIR Rural Outreach Program to increase the participation of small business concerns located in the 25 states that receive the fewest SBIR awards and is limited to funding activities to encourage small firms in those states to participate in the SBIR program.

Since the inception of the program, rural state small businesses have achieved impressive gains in SBIR competition. SBIR awards have been vital in nurturing and growing technology-based small businesses that are key assets today, and the SBIR Rural Outreach Program is key to continuing and building on this success by small businesses in rural states. The program is also an important adjunct to the Federal and State Technology (FAST) Partnership Program.

The SBIR Rural Outreach Program was funded at $1.5 million in the FY 2001, and the Administration has requested $1.5 million for FY 2002. To encourage greater participation by the smaller states, we recommend the SBIR Rural Outreach Program be funded at its authorized level of $2 million.

BusinessLINC

As part of the New Markets Venture Capital Program Act of 2000 enacted in December 2000, the Congress authorized $6.6 million in annual grants to help foster public-private coalitions to enhance business-to-business relationships and mentor-protégée programs. These grants are intended to help business development in severely distressed areas by getting large firms to assist small firms.

BusinessLINC appropriations were $7 million for Fiscal Year 2001. For Fiscal Year 2002, we recommend $6.6 million, the authorized level approved last year by the Congress.

Office of National Ombudsman

The SBA Office of National Ombudsman is charged with overseeing the ten Regional Fairness Boards that convene throughout the U.S. to listen to small businesses describe their experiences with Federal regulatory agencies. This office was created under the Small Business Regulatory Enforcement Fairness Act of 1996 (Act) (P.L. 104-121).

This program provides a critical link between small businesses and the Federal agencies. Since enactment of the Act, $500,000 has been earmarked annually for the Office of National Ombudsman, and the performance of the office has been dismal. At a minimum, $1.625 million should be earmarked for the expenses of the Office, including the overhead of the ten Regional Fairness Boards. This amount will allow for each of the ten Boards to conduct one meeting per calendar quarter and will cover the expenses necessary so that the Office will be properly staffed.

Thank you for the opportunity to make recommendations for funding key programs and activities at the SBA. If you have any questions or need additional information, please let me know or have your staff contact Paul Cooksey at 4-8495.

Sincerely,

Christopher S. Bond
Ranking Member

Conrad Burns
United States Senate

Mike Enzi
United States Senate

Olympia J. Snowe
United States Senate